

ITS Funding Model Evolution

North Carolina Office of Information Technology Services

Agenda

- Objectives
- Background
- Approach
- Baseline Budget
- Cost Methodology
- Future Phases

Objectives of OITS Rates Development

- FY15-17 biennium rates submitted to OSBM for approval
- Updated rate-setting methodology that:
 - Was consistent and easily understandable
 - Created more transparent budget and rates
 - Simplified the process
 - Removed intra-agency cross billing
 - Provided clear cost allocations
 - Validated and updated rates
 - Will ensure cost recovery & funding of IT priorities

"SECTION 7.2.(c) Rate Setting. – By October 31, 2013, October 31, 2014, the State Chief Information Officer shall establish consistent, fully transparent, easily understandable rates that reflect industry standards for each service for which any agency is charged.

Background

- Multiple uses of the term “**overhead**” and multiple allocation methods
- Personnel were accounted for across multiple cost centers/services
- Rates are circular** (Server costs depend on e-mail rates; e-mail costs depend on server rates)
- NCAS is not designed for cost basis accounting
- Inconsistent application/tracking of funds for IT Facilities and Equipment (ITF&E) expenses
- Inconsistent application of rates to consumers
- Cost centers included in their budgets “**intra-agency cross charges**,” which created complexity and confusion (see chart at right)

Reference	Summary of Legislation
§ 147-33.82	OITS shall submit rates to OSBM
§ 147-33.83	OITS may establish shared services and charge for them
§ 147-33.87	OSBM and OITS establish method to budget and account for IT
SB 744 – 7.2(c)	Transparent rates, with report due Oct 1, 2014
SB 744 – 7.2 (c1)	Establish rates for CJLEADS
HB 950 - 6A.8(b)	Rates: setting according to industry standards, apply overhead consistently, OSBM approve

Fiscal Year	Total Costs in General Ledger (\$M)	Internal Billings (\$M)	Transfer to General Fund (\$M)	Base Costs (\$M)
2014-2015	\$ 178.0	\$ 13.0		\$ 165.0
2013-2014	\$ 173.0	\$ 13.3		\$ 159.7
2012-2013	\$ 193.5	\$ 12.8	\$ 14.0	\$ 166.7
2011-2012	\$ 187.3	\$ 13.0		\$ 174.3

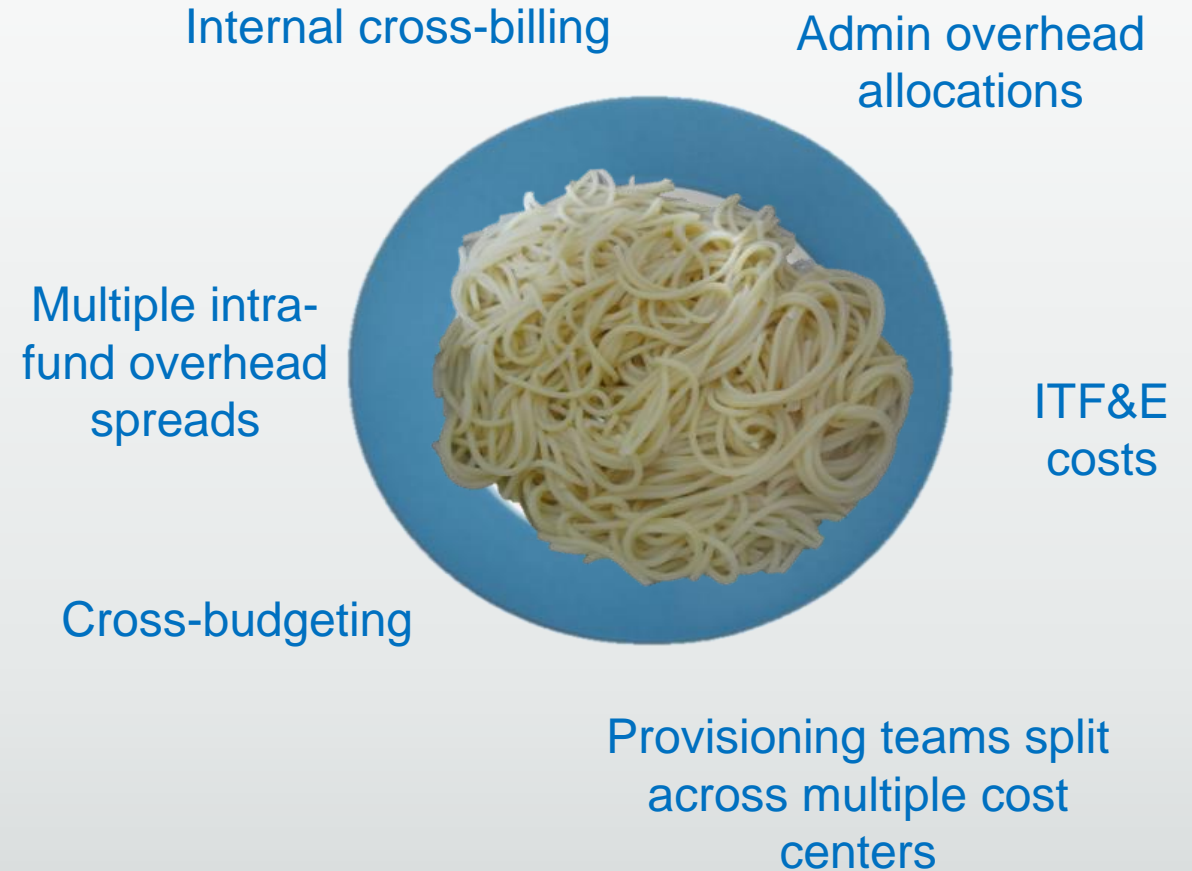
Year-over-year base costs (cross-billing removed)

red=estimate

Third-Party Validation

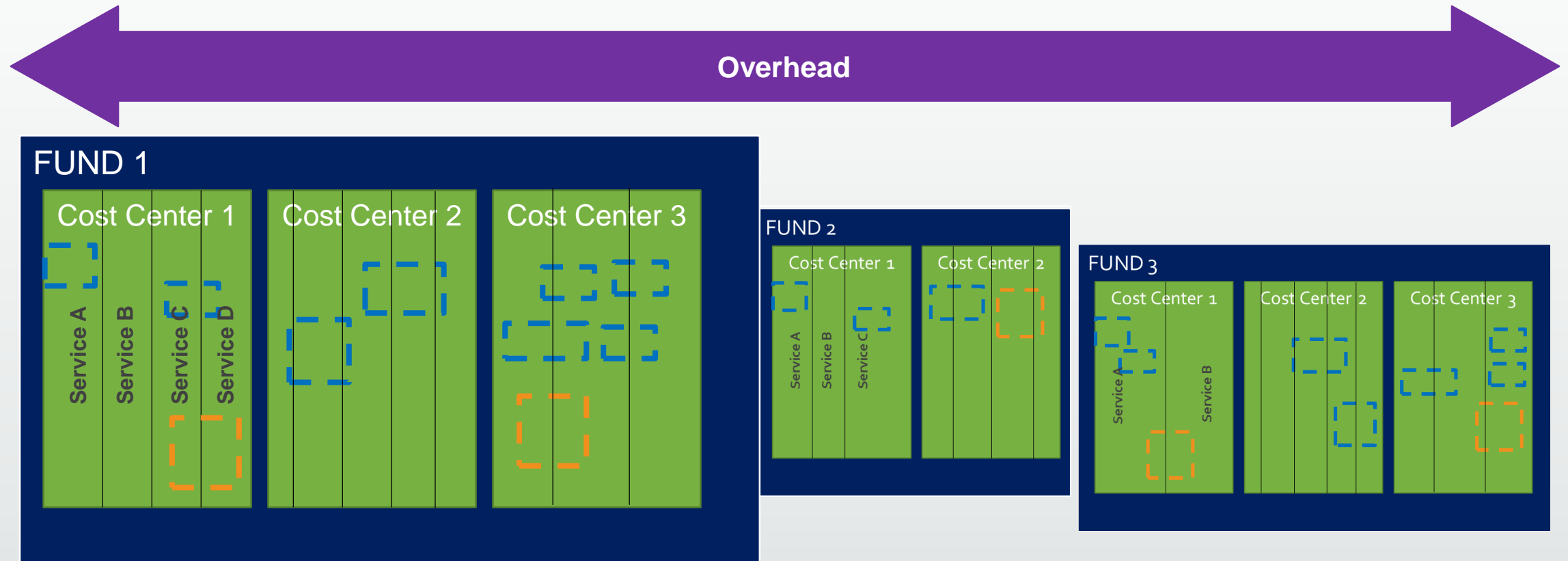
OSBM and OITS co-sponsored for third-party validation of rates

- OSBM and OITS co-sponsored effort to provide third-party validation of rates efforts
- Grant Thornton LLP (GT) was hired through a competitive bidding process to assist with proposing a new cost model for rate development
- GT associates helped unravel the cross-billing issue and budget issues and will assist with our prioritized plan to develop FY15-17 rates
- Proposed methodology and get-well plan were developed mutually between OITS, OSBM and GT




Prior Cost Accounting Confusion

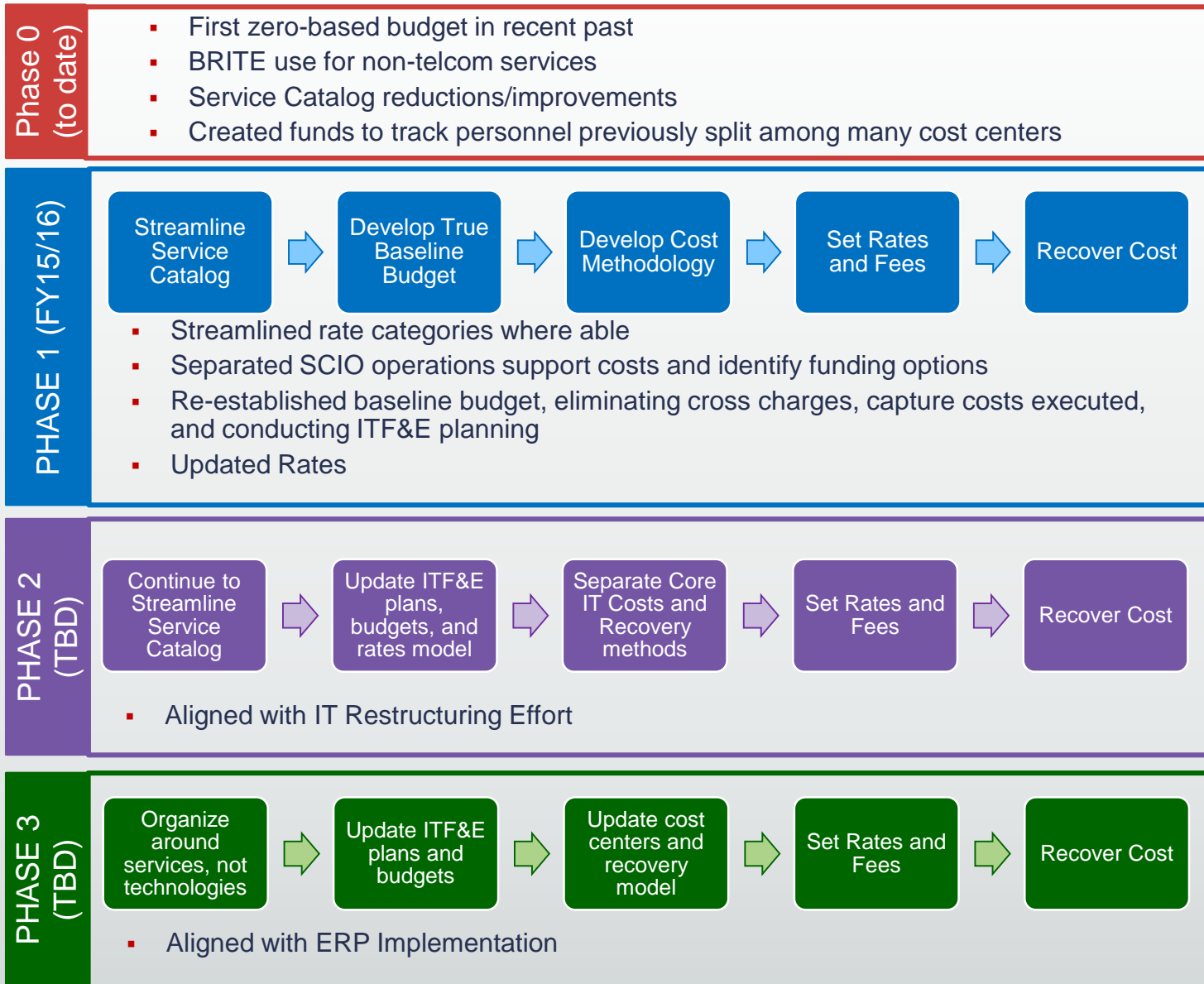
Budgets and overhead - many costs hard to track and account for



 Some areas included ITF&E plans; others did not

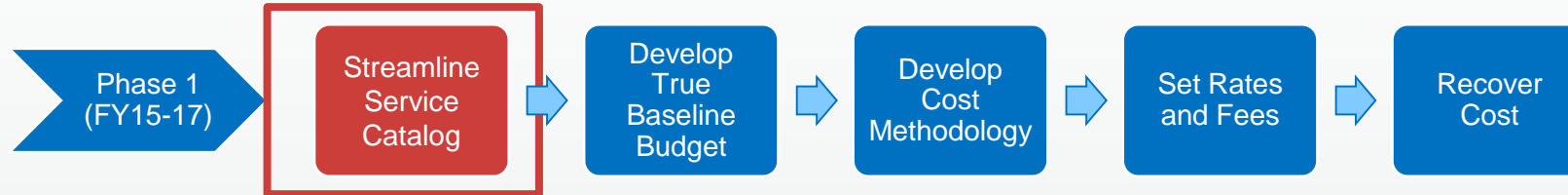
 "Shared Direct" costs for Funds (Provisioning Team, Manager, Etc) were scattered and hard to track and account for

Phased Approach to Get Well



Service Catalog Improvements

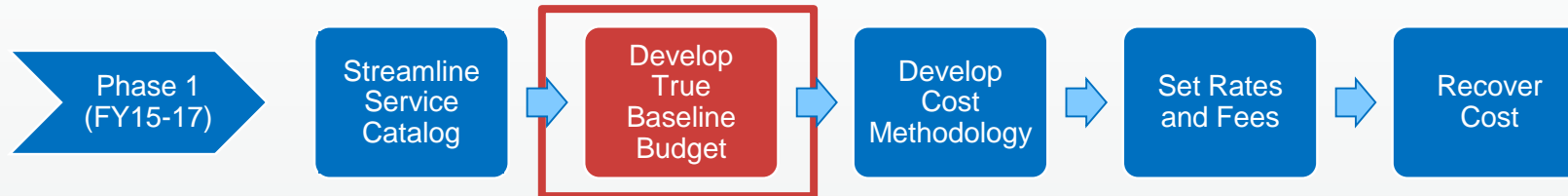
Continued efforts to improve service catalog



- Service catalog improvements are continual as we improve business processes, modernize equipment, and remove unused service codes
 - All Service Catalog changes affect billing systems for telecom and/or computing services as well as account tracking and budgeting
 - Will communicate changes with stakeholders prior to making them
- Moving towards customer-facing services (Phase II and III) will completely revamp the service catalog
- Telephony and voice are largely pass-through and consistent year-over-year; left mostly as-is for Phase I

Baseline Budget

Separated budgeting and cost recovery process



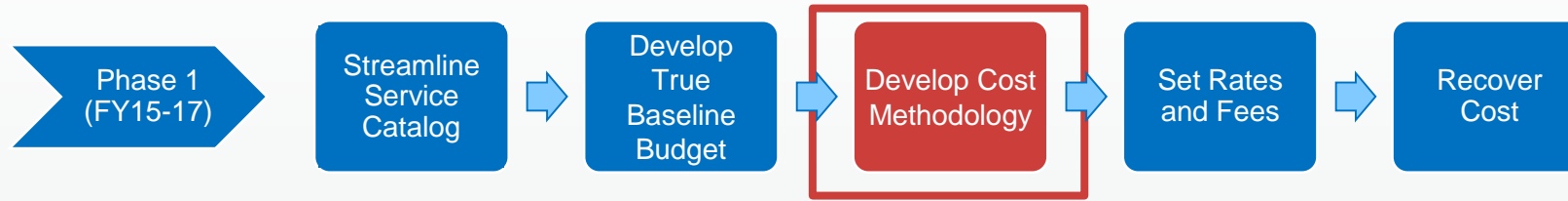
HAZARDS!!

Variables to accuracy:

- Hardware & Software
- Maintenance
- Contract renegotiations
- Price inflation
- Turnover of personnel

- Worked with agencies to verify as-is consumer base and potential demand changes
- Verified and documented as-is resources and potential changes for FY15-17
- Identified the clear “**cost of doing business**” by removing intra-agency cross-charges and clarifying operational budgets
- Captured and validated **overhead** in two areas: SCIO and OITS Support Functions
- Provided new vision and plan for **ITF&E funding**, tracking separate from budgeted operational costs

Cost Methodology



- Costs budgeted and communicated in five (5) distinct areas (below)
- Options included Appropriation, Subscription Rate, Allocated across services via causal driver(s), rates (fee-for-service)
- Each area discussed in detail next slides

SCIO and Direct Staff

OITS Support Functions (HR, Finance, Legal, etc)

Shared Services Direct Support (Help Desk, etc)

Recovering Services

ITF&E Costs

SCIO and Direct Staff

SCIO and Direct Staff		FY13/14 ≈ \$1.0M
7100 1000 Administration Fund		Proposed Funding Option:
<ul style="list-style-type: none">- SCIO- Some Direct Staff (General Counsel, PIO...)- Includes IT costs for personnel		<ul style="list-style-type: none">- New Appropriation (~\$1 M)- Worksheet II submitted as part of budget process
OITS Support Functions (HR, Finance, Legal, etc)		
Shared Services Direct Support (Help Desk, etc)		
Recovering Services		
ITF&E Costs		

OITS Support Functions

SCIO and Direct Staff

FY13/14 ≈ \$1.0M

OITS Support Functions (HR, Finance, Legal, etc)

FY13/14 ≈ \$9.6M

7100 1000	Administration (not including SCIO)
7100 1010	ITS Personnel Office (HR)
7100 1020	Chief Financial Officer
7100 1027	Financial Rate Development Tools
7100 1031	ITS Purchasing
7100 2051	Facilities Services
7250 20003	Printer Support Services
7270 1000	Administration Pool

~15% paid for by IT fund
through allocations

Proposed Funding Option:
- Agency Subscription

Shared Services Direct Support (Help Desk, etc)

Recovering Services

ITF&E Costs



Shared Services Direct Support

SCIO and Direct Staff

FY13/14 ≈ \$1.0M

OITS Support Functions (HR, Finance, Legal, etc)

FY13/14 ≈ \$9.6M

Shared Services Direct Support (Help Desk, etc)

FY13/14 ≈ \$7.7M

7105 1000	Business Relationship Management
7228 35030	Asset Management Services
7280 1000	Help Desk Administration
7280 20007	Customer Service
7280 4301	Operations Excellence Program
7280 4302	Information Security Management
7280 4304	Monitoring & Control

Proposed Funding Option:

- Allocate across services via a causal driver

Recovering Services

ITF&E Costs



Recovering Services

SCIO and Direct Staff

FY13/14 ≈ \$1.0M

OITS Support Functions (HR, Finance, Legal, etc)

FY13/14 ≈ \$9.6M

Shared Services Direct Support (Help Desk, etc)

FY13/14 ≈ \$7.7M

Recovering Services

FY13/14 ≈ \$137.4M

7115 1082	CGIA Professional Services	7224 53209	School Connectivity Initiatives
7217 72001/2	Active Directory/ NCID	7224 53213/4/5	LAN Services/P2P/AAMVANET
7217 73001/2	Distributed Hosting	7224 53253	WAN Services
7217 74001	Database Services	7224 53321/2	Wireless
7217 74002	Mainframe Hosting	7224 53341/3	Long Distance
7217 75001/2	Storage	7224 53920	Video Services
7224 1072/5	E-Rate/Telcom Billing	7228 35011	Common Payment Services
7224 53111	Local PSTN Access	7228 35020	Application Development & Support
7224 53121	Voice Equipment Maintenance	7228 35023	ITSM Services
7224 53130	Structured Cabling Services	7228 35026	SQA and Performance Testing
7224 53142/49	PBX	7228 35027	Electronic Document Management
7224 53146/51	Telephony	7228 35032	Project Management Office
7224 53170/82	Pay Telephone/Call Center	7250 1000	Desktop Support Services Admin
7224 53207	Network Security Services	7250 36252	Email

Proposed Funding Option:

- Rates (Fee-for-Service)

ITF&E Costs



ITF&E Costs

SCIO and Direct Staff

FY13/14 ≈ \$1.0M

OITS Support Functions (HR, Finance, Legal, etc)

FY13/14 ≈ \$9.6M

Shared Services Direct Support (Help Desk, etc)

FY13/14 ≈ \$7.7M

Recovering Services

FY13/14 ≈ \$137.4M

ITF&E Costs

FY13/14 ≈ \$4.0M

- Have been captured by fund/cost center in budget
- Established a separate fund to track dollars that won't be spent in the year they are recovered. OITS will maintain clear expenditure plan.
- Existing deficit exists to “catch up” – estimated at \$3.5M

Proposed Funding Option:

- Recovered year-over-year through rates

TOTAL FY13/14 ≈ \$159.7M



Future Plan for Describing Costs

SCIO and Direct Staff

OITS Support Functions (HR, Finance, Legal, etc)

Shared Services Direct Support (Help Desk, etc)

FUND 1

Direct costs for Fund 1 - Provisioning

Direct costs for Fund 2 - Manager

Cost Center
1

Cost Center
2

Cost Center
3

Expected ITF&E Costs

FUND 2

Direct costs for Fund 1 - Provisioning

Direct costs for Fund 2 - Manager

Cost Center
1

Cost Center
2

Cost Center
3

Expected ITF&E Costs

FUND 3

Direct costs for Fund 1 - Provisioning

Direct costs for Fund 2 - Manager

Cost Center
1

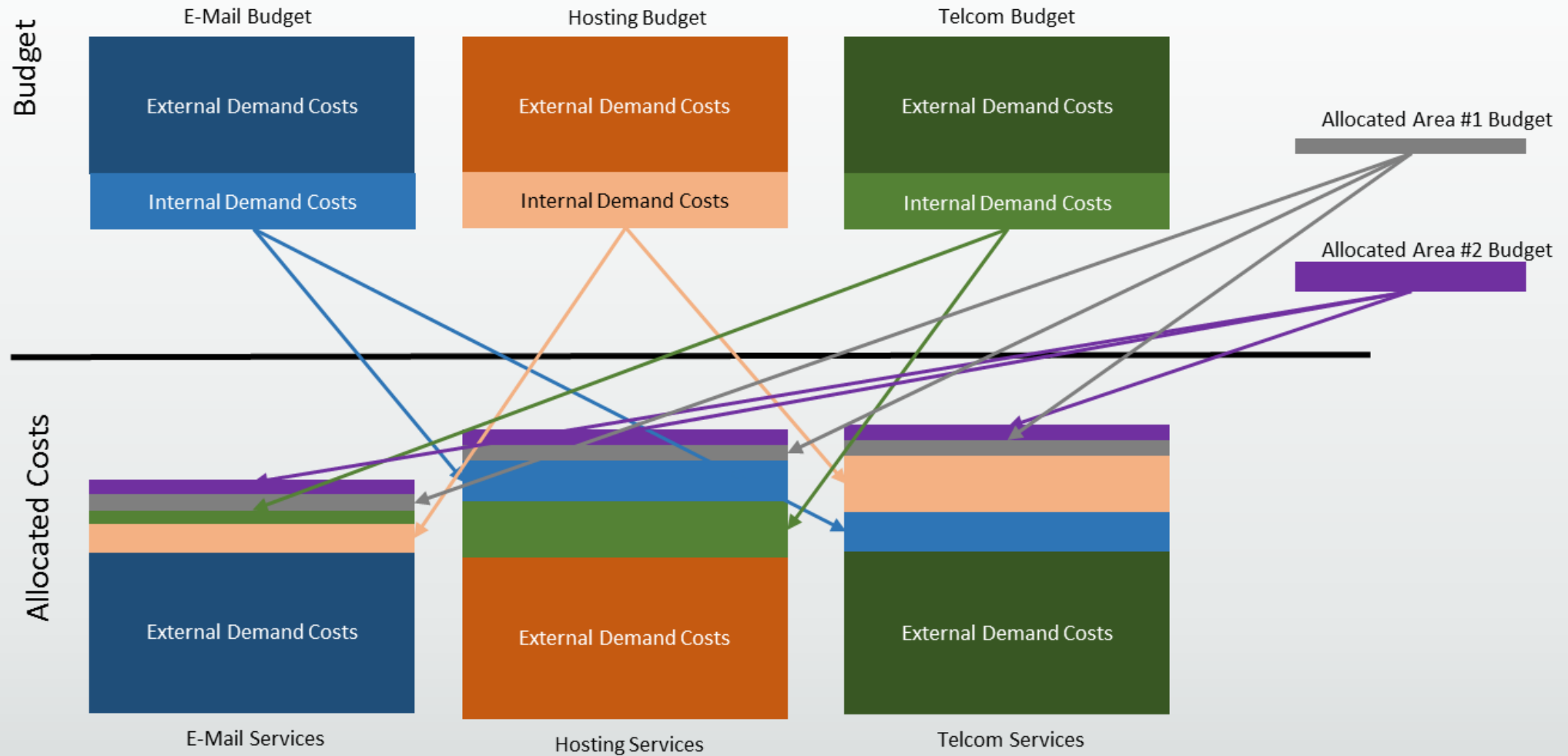
Cost Center
2

Cost Center
3

Expected ITF&E Costs

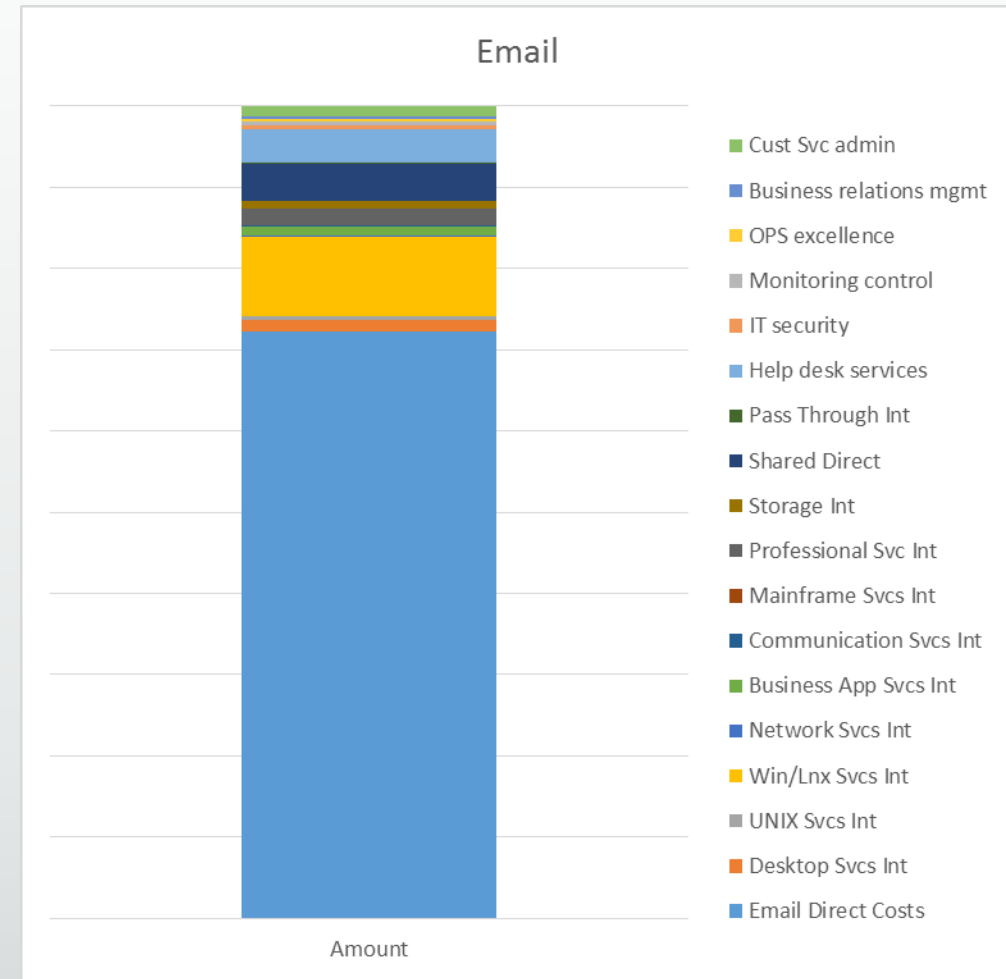
Expected ITF&E Costs

Allocation Methodology



Cost Stack Example

- The cost of providing each service (in this case, e-mail) can be represented by a “cost stack” of all allocations and distributed costs
- Helps identify the true costs associated with a service and identify areas that require more specific analysis



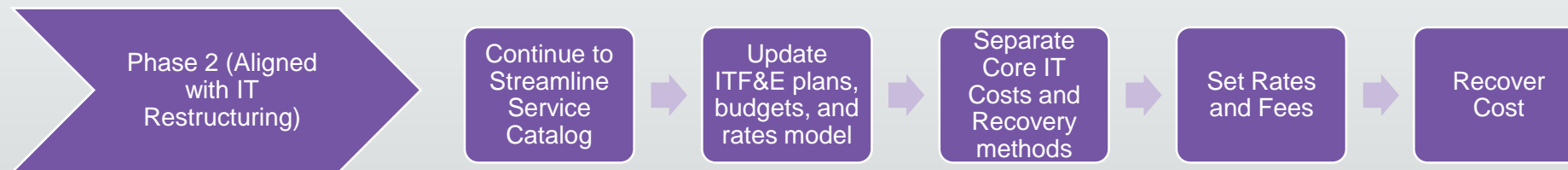
Keys to Implementation of Phase I

- Reviewed legacy Memoranda of Understanding (MOUs) OITS has with agencies that pay for services outside of the current rate structure
- Between now and June, will update service catalog to establish new services and cost centers for FY15-17 (Affects billing systems)
- Was able to identify key demand drivers and defensible allocation methodologies as keys to rates setting
- Secured agreement on how to deal with ITF&E purchases and funding

Future Phase II

Mature capability that reflects the state's core IT costs

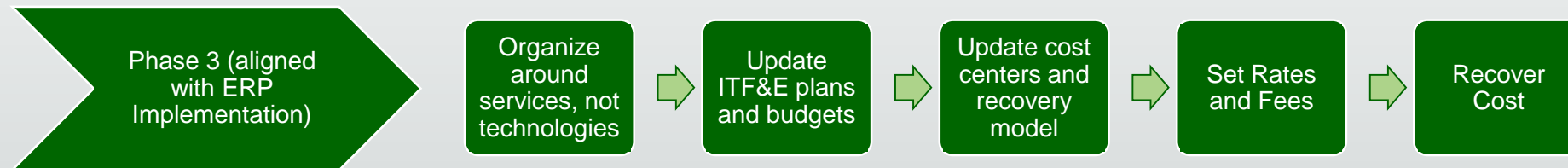
- Better define processes, tools and governance models
- Refine sophisticated cost model to allocate accurate costs to services
- Fully implement activity-based cost modeling capabilities to automate the administration of the cost model
- Separate Core IT costs and recovery methods



Future Phase III

Fully mature, integrated capability that reflects offerings and bundles

- Redefine Shared Services Division catalog centered around customer-facing services, not technologies
 - Moves SSD towards a service consumption model
 - Consumers pay for a service, not a collection of technologies
- Should integrate with ERP, cost allocation, and budgeting systems



Questions??

